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Harmon Releases Audit of Carlisle County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2019 taxes for Carlisle County Sheriff William Gilbert. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the sheriff's settlement presents fairly the taxes charged, credited and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited and paid for the period April 16, 2019 through May 15, 2020 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Carlisle County Sheriff's franchise tax settlement was materially misstated: The Carlisle County Sheriff's Franchise Tax Settlement for the 2019 tax collection period was materially misstated. Current year franchise taxes were understated by \$294,813, and taxes paid were understated by \$282,500. This was due to the inexperience of the bookkeeper and sheriff. As this was the first full year of taxes collected under the sheriff, there was confusion as to what tax year the franchise taxes collected should be reported in. Though the taxes were properly collected and

distributed, they were not correctly recorded on the franchise tax settlement. Due to the error that was made, the franchise tax settlement was materially misstated.

KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her account with the department, the county and any district for which the sheriff collects taxes on or before September 1 of each year.” KRS 134.192(5) states, “[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts.” Also, strong internal controls over the reporting process requires all reports to be reviewed throughout the reporting period to ensure all relevant data is included in the final settlement.

We recommend the Carlisle County Sheriff’s Office review all reports to ensure the correct data for the correct time period is included.

County Sheriff’s Response: Franchise Tax Bills are received in the Sheriff’s Office from the County Clerk’s Office. They have rates and calculations when received. We have developed new procedures and tracking systems to ensure Franchise Bills are checked and billed at the correct rate when they are sent out of the Sheriff’s office. When bills are received from the Clerk’s office they are logged, checked for accuracy, assigned a tracking number and mailed. When they are paid, they are logged by tracking number and recorded in log by month and date paid for distribution. Receipts are recorded individually for processing discounts and fees, and on a total log to ensure distribution agrees with bank balance. Monthly interest is added to total and bank balances are reconciled before disbursements are made. Interest is paid in a separate check.

The misstated amount on the 2019 settlement was a result of a 2018 bill (prior administration) sent out at the wrong rate by the Clerk’s office. [Franchise name redacted], and Clerk’s Office, found the error but before correction could be made, the bill had been paid. [Franchise name redacted] requested a refund from the Clerk’s Office, who in turn forwarded the request to the Sheriff’s office. We contacted Frankfort and was advised to process the refund and deduct it from December disbursements.

All documents pertaining to overpayment and refund are recorded and logged in Sheriff’s department. [Department of Revenue employees’ named redacted] came to Carlisle County to assist in preparation of settlement.

Auditor’s Reply: There were eleven tax bills collected that were not included on the sheriff’s franchise tax settlement including the bill mentioned in the sheriff’s response that required a partial refund in December. The bills were collected during May and July 2019 and paid out during June and August 2019. The bills were not included during the 2018 tax settlement and thus belong on the 2019 tax settlement. Additionally, the Department of Revenue assists with the state portion of the tax settlement. Franchise taxes are not included on the state portion.

The Carlisle County Sheriff’s Office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The sheriff’s

bookkeeper and the part time assistant collect taxes, post payments to the tax software, prepare deposits, prepare monthly tax reports and monthly tax distributions, perform monthly bank reconciliations, and prepare the annual tax settlement. The sheriff has implemented compensating controls such as reviewing bank reconciliations by initialing, dual signatures are required for all disbursements with one being the sheriff, and reviewing monthly tax reports by signing and dating reports. However, the sheriff's office does not have adequate compensating controls over tax collections due to not documenting review of daily checkout sheets, deposit tickets, and ledgers.

The sheriff indicated that this condition was present because of the limited number of office staff and the budget requirements of the sheriff's office. The sheriff was unaware of the need to document review of tax collection documents. A lack of segregation of duties or strong oversight increases the risk of undetected misappropriation of assets or inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing this procedure.

We recommend the sheriff's office segregate the duties noted above to the extent allowed by budget restrictions. For those duties that cannot be segregated due to a limited number of staff, we recommend the sheriff's office strengthen the management oversight that is currently in place.

County Sheriff's Response: We maintain a Small County Sheriff's office with a small operating budget. There are two full time employee. Both employees are trained, and can perform any duty in the office. Both sign all Fee and Tax receipts as they are recorded in [accounting software name redacted]. The Sheriff and Office Manager sign all checks. Reports are double checked for accuracy. The Sheriff or Chief Deputy are available during office hours, in person or by phone, for help or advice and to oversee the functions of the office.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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